

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC 6665

INFO USDEL MTN GENEVA

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SUBJECT: MULTILATERAL TRADE NEGOTIATIONS - COUNTRY PROFILE
ON PERU

REF: STATE 181868

FOLLOWING IS EMBASSY'S CONTRIBUTION FOR MTN COUNTRY PROFILE
ON PERU.

1. ECONOMIC AND POLITICAL BASIS FOR PERU'S MTN APPROACH.

A. SINCE ITS ASSUMPTION OF POWER IN 1968, PERU'S
MILITARY GOVERNMENT HAS EMBARKED ON A SYSTEMATIC ATTEMPT TO
REDUCE THE ROLE OF THE PRIVATE SECTOR AND TO INCREASE THE
ROLE OF THE PUBLIC SECTOR. THIS TREND ASSUMES MANY ASPECTS,
INCLUDING THE UNIQUE FORMS OF PERUVIAN SOCIALISM SUCH AS
THE "INDUSTRIAL COMMUNITY," "SOCIAL PROPERTY," AND COLLECTIVIST
FORMS OF AGRICULTURAL COOPERATIVES. WITHIN THIS GENERAL
FRAMEWORK, THE GOP'S CONTROL OVER FOREIGN TRADE IS ALMOST
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ABSOLUTE. ONE RECENT ESTIMATE IS THAT THE GOP DIRECTLY

CARRIES OUT 55 PERCENT OF PERU'S TOTAL IMPORT TRADE. THE REMAINDER IS SUBJECT TO STRICT IMPORT AND FOREIGN EXCHANGE CONTROLS. ON THE EXPORT SIDE, THE GOP CONTROLS CLOSE TO 100 PERCENT AS IT DIRECTLY HANDLES THE SALE AND EXPORT OF MINERALS, SUGAR, COFFEE, AND COTTON. CONTROL IS SO COMPLETE THAT SERIOUS PROBLEMS MAY BE CAUSED BY RATHER MINOR CHANGES IN POLICY, FOR EXAMPLE, A CHANGE IN FOREIGN EXCHANGE REGULATIONS IN MAY 1974 TEMPORARILY DISRUPTED THE FLOW OF IMPORTS. ALTHOUGH THIS CHANGE WAS A MISTAKE AND WAS SOON REVERSED, ITS EFFECTS ARE STILL BEING FELT.

B. BECAUSE OF THE NATURE OF ITS POLITICAL IDEOLOGY, THE GOP APPROACHES THE MTN WITH A GOOD DEAL OF SUSPICION. LIKE MANY COUNTRIES OF THE THIRD WORLD, PERU FEELS THAT IT HAS BEEN DOMINATED AND EXPLOITED BY THE DEVELOPED NATIONS AND IS VOCIFEROUSLY SEEKING TO REDRESS PAST ECONOMIC "WRONGS" AND TO ACHIEVE POLITICAL AND CULTURAL IDENTITY. THE GOP HAS PROMOTED EXTREME NATIONALISM AND OFTEN BLAMES "IMPERIALISM" (READ THE UNITED STATES) FOR MANY OF ITS TROUBLES. (AS A SIDE NOTE, ONE OF THE ECONOMIC POLICY MAKERS IN THE FOREIGN MINISTRY HAS MENTIONED TO THE EMBASSY SEVERAL TIMES THAT, GIVEN THE NATURE OF THE GOP'S TRADE POLICIES, PERU MIGHT JUST AS WELL WITHDRAW FROM GATT. ALTHOUGH WE DO NOT TAKE THIS COMMENT SERIOUSLY, IT DOES REFLECT A SENTIMENT WHICH IS HELD BY SOME IN THE GOP.)

C. PERU'S SUSPICION OF THE MTN IS TEMPERED BY ITS DESIRE TO OBTAIN AS MANY TANGIBLE RESULTS AS POSSIBLE FROM IT. THE GOP RECOGNIZES THE IMPORTANCE OF A SUCCESSFUL OUTCOME TO THE PERUVIAN ECONOMY, WHICH IS HEAVILY DEPENDENT ON FOREIGN TRADE. BUT THE GOP BELIEVES THAT THE DC'S COMPETITIVE STRENGTH MAKES IT VERY DIFFICULT FOR THE LDC'S TO DIVERSIFY THEIR EXPORTS OR TO RECEIVE "FAIR" PRICES FOR THEIR TRADITIONAL EXPORTS. PERU WILL REQUIRE INCREASED FOREIGN EXCHANGE EARNINGS OVER THE NEXT FEW YEARS IN ORDER TO FINANCE ITS MASSIVE DEVELOPMENT PROGRAM. TO MEET THESE REQUIREMENTS, PERU MUST LOOK TO EXPORTING RAW MATERIALS AT HIGHER PRICES. LIMITED OFFICIAL USE

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THE GOP BELIEVES THAT THE TERMS OF TRADE HAVE MOVED STEADILY AGAINST LDC'S (INCLUDING PERU) AND THAT AN MTN WHICH RESULTED ONLY IN A REDUCTION OF TARIFFS WOULD PERPETUATE THE DEVELOPING WORLD'S DEPENDENCE ON THE DC'S.

E. RATHER THAN DEPEND ON THE MTN FOR A CORRECTION OF WHAT IT BELIEVES IS A BASIC IMBALANCE, THE GOP PREFERS TO RELY ON PRODUCERS' GROUPINGS TO CONTROL SUPPLY

AND TO RAISE PRICES OF BASIC COMMODITIES. TO PERU, THE MTN, WHICH IS DESIGNED TO ELIMINATE OBSTACLES TO INTERNATIONAL TRADE, IS NOT SUFFICIENT IN ITSELF TO SOLVE THE PROBLEM. THE IDEAL PERUVIAN PREFERENCE WOULD BE TO INCREASE OBSTACLES TO INTERNATIONAL TRADE BY "SECTORIZING" TRADE, I.E., BY BREAKING IT DOWN INTO DIFFERENT PRODUCERS' GROUPS VERSUS CAPITAL GOODS SUPPLIERS. IN THE PERUVIAN VIEW, THE MTN MERELY PROVIDES THE OPPORTUNITY FOR INCREASED TRADE, BUT IN ACTUAL FACT THE DC'S WOULD BE THE ONES WHO WOULD DERIVE FULL ADVANTAGE FROM THIS AND NOT THE LDC'S.

F. THUS, PERU BELIEVES THAT THE MTN SHOULD ADOPT THE FOLLOWING CONCEPTS AS BASIC GUIDELINES FOR ITS WORK:

(1) DC'S SHOULD GRANT CONCESSIONS WITHOUT DEMANDING RECIPROCAL CONCESSIONS BY THE LDC'S.

(2) THERE SHOULD BE NO DISCRIMINATION AMONG THE LDC'S.

(3) LDC'S SHOULD RECEIVE PREFERENTIAL, RATHER THAN DISCRIMINATORY, TREATMENT.

G. PERU BELIEVES THAT THE GSP SHOULD BE APPLIED EQUALLY TO ALL LDC'S. SAFEGUARD CLAUSES, WHEN IMPLEMENTED AGAINST AN LDC, SHOULD BE APPLIED IN A VERY CAUTIOUS, UNDERSTANDING MANNER. PERU BELIEVES STRONGLY IN THE "INFANT INDUSTRIES" ARGUMENT AND CONTENTS THAT SUBSIDIZATION OF SUCH INDUSTRIES SHOULD BE ACCEPTED BY THE DC'S.

H. THE PERUVIAN REVOLUTION HAS TURNED MOST OF THE PERUVIAN POLITICAL STRUCTURE AND MUCH OF THE PERUVIAN LIMITED OFFICIAL USE

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ECONOMY UPSIDE DOWN. ON THE INTERNATIONAL LEVEL, OVER THE PAST TWO YEARS PERU HAS TRIED TO PUT ITSELF IN THE FOREFRONT OF THE THIRD WORLD. IN LATE JULY THE GOP EXPROPRIATED THE U.S.-OWNED MARCONA MINING COMPANY AND, AS OF THIS DATE (SEPTEMBER 2), IT IS UNCERTAIN WHETHER PROMPT AND EFFECTIVE COMPENSATION WILL BE FORTHCOMING. PERU HAS EXPRESSED ITS THIRD WORLD PHILOSOPHY IN ALL POSSIBLE INTERNATIONAL FORA, MOST RECENTLY AT THE MEETING OF THE NON-ALIGNED COUNTRIES WHICH WAS HELD IN LIMA DURING THE LAST WEEK OF AUGUST 1975.

I. ALTHOUGH PERU DOES NOT NECESSARILY PERCEIVE THE MTN AS A DIRECT ECONOMIC INSTRUMENT OF THE LDC'S, IT DOES FEAR THAT THE MTN MIGHT BE DOMINATED BY THE INDUSTRIALIZED STATES (READ UNITED STATES). PERU IS

HIGHLY SUSPICIOUS OF U.S. INTENTIONS, ESPECIALLY WHEN
THOSE INTENTIONS ARE EXPRESSED IN TERMS WHICH PURPORT
TO BE OF BENEFIT TO ALL COUNTRIES. THE EXCLUSION OF
VENEZUELA AND ECUADOR FROM THE BENEFITS OF OUR GSP
RECONFIRMED THE GOP'S CONCERNS IN THIS REGARD.

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J. THE PERUVIANS WILL LISTEN AND PARTICIPATE IN
GENEVA BUT WILL HAVE TO BE CONVINCED THAT THE RESULTS
OF THE MTN WILL, IN FACT, BE OF BENEFIT FOR PERU.

2. PERU'S POLICIES AND MECHANISMS TO ACHIEVE TRADE
OBJECTIVES.

A. THE GOP'S TARIFF POLICY (AS WELL AS OTHER TRADE
MEASURES) IS DESIGNED TO ACHIEVE NATIONAL ECONOMIC AND
POLITICAL OBJECTIVES (AMONG THEM SUBJECTING THE ECONOMY
TO THE SUPREMACY OF THE PUBLIC SECTOR AND ENCOURAGING THE
DEVELOPMENT OF NATIONAL INDUSTRIES) RATHER THAN DESIGNED
TO CONTROL, PER SE, INDIVIDUAL IMPORT ITEMS. TARIFFS ARE
HIGH BUT ARE NOT AS IMPORTANT IN THE GOP MIX OF IMPORT
RESTRICTIONS AS NTB'S. THE PRINCIPAL NTB'S EMPLOYED BY

THE GOP ARE AS FOLLOWS:

(1) PROHIBITION OF IMPORT OF MOST NONESSENTIAL GOODS.

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(2) PROHIBITION OF IMPORT OF GOODS SIMILAR TO THOSE MANUFACTURED LOCALLY.

(3) IMPORT QUOTAS.

(4) RATIONING OF FOREIGN EXCHANGE.

(5) ADMINISTRATIVE IMPEDIMENTS.

(6) GOP'S EXCLUSIVE PURCHASING AGENCIES AND MONOPOLIES WHICH CONTROL ALL IMPORTS OF BASIC PRODUCTS AND RAW MATERIALS.

B. AN ITEM-BY-ITEM NTB NEGOTIATION WILL HAVE LITTLE IMPACT. THE SYSTEM ITSELF IS THE CAUSE WHILE THE NTB'S ARE MERELY THE MANIFESTATION OF THAT SYSTEM.

C. PROSPECTS ARE THAT THE GOP WILL FACE A HIGHLY UNFAVORABLE BALANCE OF TRADE OVER THE NEXT SEVERAL YEARS. THIS INBALANCE WILL BE HEIGHTENED BY THE LESS THAN EXPECTED DEVELOPMENT OF OIL PRODUCTION FROM THE PERUVIAN JUNGLE. THE GOP WILL CONTINUE TO TAKE ALL MEASURES NECESSARY TO LIMIT IMPORTS. THIS IS SO IMPORTANT TO THE GOP THAT IT HAS BEEN WILLING, THUS FAR, TO SUFFER THE CONSEQUENCES OF EXTREME SHORTAGES OF SPARE PARTS, AT TIMES A LACK OF CERTAIN ESSENTIAL CAPITAL GOODS, ETC. AN ESSENTIAL ELEMENT OF GOP ECONOMIC POLICY HAS BEEN THE ACHIEVEMENT OF SHORT-TERM ECONOMIC STABILITY AT THE COST OF POTENTIAL LONG-TERM INSTABILITY.

D. PERU IS A MEMBER OF THE ANDEAN PACT, THE SUB-REGIONAL ECONOMIC INTEGRATION MOVEMENT. IT HAS PLAYED A LEADERSHIP ROLE IN ATTEMPTING TO STRENGTHEN THE ANDEAN PACT AND, IN MANY WAYS, HAS PRODUCED NATIONAL REGULATIONS WHICH GO FAR BEYOND THE ANDEAN PACT'S OWN RESTRICTIONS. WITHIN THE PACT THERE ARE CERTAIN MEASURES IN EXISTENCE DESIGNED TO ENCOURAGE TRADE AND INVESTMENT AMONG MEMBER COUNTRIES TO THE DETRIMENT OF TRADE WITH THIRD PARTIES. IN PERU IMPORTS FROM OTHER ANDEAN PACT MEMBERS COME OUTSIDE THE NORMAL IMPORT QUOTAS WHICH APPLY TO IMPORTS FROM NON-MEMBERS. DURING THE FIRST FOUR YEARS OF THE LIMITED OFFICIAL USE

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ANDEAN PACT, 1969-1973, THE PERCENTAGE OF PERU'S TOTAL IMPORTS WHICH CAME FROM THE OTHER PACT MEMBERS ROSE FROM FIVE TO NINE PERCENT. (LIMA 6997 REPORTED ON THE ANDEAN PACT AND THE MTN.)

E. IN ADDITION, PERU HAS BILATERAL TRADE AND/OR CREDIT AGREEMENTS WITH SEVERAL OTHER COUNTRIES, INCLUDING COMMUNIST BLOC STATES SUCH AS THE USSR, HUNGARY, POLAND, AND ROMANIA. THESE TRADE AGREEMENTS, WHICH GENERALLY INVOLVE TIED LOANS, UNDOUBTEDLY HINDER TRADE WITH OTHER COUNTRIES, PARTICULARLY THE UNITED STATES.

F. IN GENERAL, THE GOP HAS NOT FOUND IT NECESSARY TO EMPLOY MONETARY AND EXCHANGE RATE POLICY MEASURES TO LIMIT IMPORTS BECAUSE OF THE MANY OTHER TOOLS AT ITS DISPOSAL. AN EXCEPTION TO THAT GENERALIZATION DID OCCUR IN 1974 WHEN THE GOP TOOK A FOREIGN EXCHANGE POLICY MEASURE FOR BALANCE OF TRADE REASONS.

G. IT SHOULD BE NOTED THAT THERE IS NO EVIDENCE THAT THE GOP HAS DISCRIMINATED AGAINST U.S. GOODS. IMPORT RESTRICTIONS ARE PART OF A GENERAL GOP POLICY AND ARE AIMED AT ALL OF PERU'S TRADING PARTNERS EXCEPT THE ANDEAN GROUP.

3. GOP AGENCIES WHICH ARE INVOLVED IN MTN POLICY INCLUDE THE FOREIGN MINISTRY, MINISTRY OF COMMERCE, MINISTRY OF ECONOMY AND FINANCE, MINISTRY OF INDUSTRY AND TOURISM, THE NATIONAL PLANNING INSTITUTE, AND THE INTER-MINISTERIAL COMMISSION ON ECONOMIC POLICY MATTERS. THE COMMERCE MINISTRY IS THE KEY POLICY MAKER IN THIS AREA.

4. THE DELEGATION WILL BE LED BY AMBASSADOR ALZAMORA AND COUNSELOR CARLOS CHICHIZOLA AT THE PERMANENT PERUVIAN MISSION IN GENEVA. THE MINISTRY OF COMMERCE HAS NOT YET DECIDED WHO IT WILL SEND TO GENEVA.

5. NOTE: THE FOREGOING WAS DRAFTED BEFORE THE AUGUST 29 COUP WHICH TOPPLED PRESIDENT VELASCO AND INSTALLED THE POSSIBLY MORE MODERATE MORALES BERMUDEZ REGIME. WHILE THIS CHANGE MAY RENDER PERU SOMEWHAT

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LESS STRIDENT DURING THE MTN, WE DO NOT EXPECT IT TO CHANGE THE FUNDAMENTAL THRUST OF PERU'S FOREIGN ECONOMIC POLICY, WHICH WILL GENERALLY REMAIN AS

OUTLINED ABOVE.

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